

CLEAN WATER STATE REVOLVING FUND

ANNUAL REPORT

STATE OF OREGON
DEPARTMENT OF ENVIRONMENTAL QUALITY

FOR THE FISCAL YEAR 2002:
JULY 1, 2001 THROUGH JUNE 30, 2002

Prepared by:

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management Discussion and Analysis (MD&A) is presented to introduce the annual financial statements of the Oregon Clean Water State Revolving Fund (CWSRF) for the year ended June 30, 2002, and is intended to supplement these financial statements and provide the users of these statements with pertinent financial information about the program, in an easy to read format. The MD&A provides financial statement readers with a summary of the information presented in the financial statements, discussion of pertinent policies, procedures and issues, and any additional information the CWSRF management feels is useful to the financial statement reader.

The CWSRF financial statements for the fiscal year ended June 30, 2002 are different than in previous years. The changes to the statements are mandated by the Governmental Accounting Standards Board (GASB) Statement number 34, which prescribes changes in accounting and reporting for governmental entities. It is the intent of this Statement number 34 that the resulting financial statements be more understandable and useful to the reader. The Department of Environmental Quality (DEQ) CWSRF loan program is responsible for the content of these financial statements.

The Clean Water State Revolving Fund Loan Program

The CWSRF provides low interest loans to public entities for projects that protect the quality of Oregon's waters. DEQ receives an annual grant from the U.S. Environmental Protection Agency (EPA). The 2002 grant was in the approximate amount of \$15,000,000. This grant must be matched with State funds in the amount of 20 percent of the federal grant, or approximately \$3,000,000 for 2002. These funds, combined with repayments on existing loans and investment interest earnings, totaled \$48,000,000 for State fiscal year 2002. CWSRF loan Interest rates can range from zero percent to the market rate, as authorized by State statute. Loan repayments are re-loaned to Oregon communities for completion of new projects, resulting in the "revolving" nature of the program. As of June 30, 2002 the Oregon CWSRF has loaned a total of \$372,675,177 to Oregon communities to help protect the quality of our water.

Net Assets of the CWSRF

GASB 34 requires the balance sheet to report the amount of Net Assets; this amount replaces what previously was reported as Fund Equity. Net assets are required to be reported including the amount of capital assets owned by the entity, less any debt incurred to obtain those capital assets. The Oregon CWSRF has no capital assets and has no debt, consequently the amount of net assets reported includes no such amounts. The total amount of reported net assets as of June 30, 2002 is \$300,186,687. The June 30, 2001 financial statements reported total fund equity (net assets) of \$272,949,292.

Net assets as of June 30, 2002 includes all amounts earned and retained in the program (similar to retained earnings in a private enterprise), all grant funds received from EPA, and all amounts paid into the CWSRF by the State of Oregon as grant match.

Income During Fiscal Year 2002

Net operating income of the CWSRF for fiscal year 2002 was \$10,466,135. Operating income includes those amounts earned by the ordinary activities of the program, less the related expenses. Related expenses include payroll costs, amounts paid for services and supplies, and amounts paid for Indirect Cost, which is used by the DEQ to pay for centralized services, such as budgeting and accounting. Net income for fiscal year 2001 was \$10,443,837.

The program has incurred no losses as a result of borrower defaults. If borrowers experience financial hardship we are willing to work to accommodate their needs, while ensuring the integrity of the CWSRF. Borrowers are required to review and adjust their sewer rates (which are pledged as the source of loan repayment) periodically, to ensure their ability to pay all their operating costs, including debt service.

Net operating income increases the amount of net assets in the program. Other increases to net assets include amounts actually received from the EPA grant, and amounts contributed as grant match by the State of Oregon. In 2002 these amounts were \$13,759,264 and \$3,011,996, respectively.

The CWSRF loan program is allowed to use 4% of its federal grant funds to cover the cost of administering the program. In addition, the Oregon program charges its borrowers two loan fees, to pay for program administrative costs after the federal grants are ended. The amount of Transfers In(Out) shown on the Statement of Income includes a \$3,000,000 transfer from the Fees Fund to the Loan Fund. This is the amount of loan fees collected from borrowers that program personnel deemed reasonable to move into the Loan Fund to make additional revolving loans, as it would not be needed for administrative costs, since the program continues to receive federal grant funding.

Changes in Cash Position

During fiscal year 2002 CWSRF cash increased by \$10,375,648, as can be seen on the Statement of Cash Flows. Total repayments received from borrowers was \$18,610,936, including principal and interest. Loan fees collected totaled \$2,307,346. Interest credited to the CWSRF account with the State Treasurer's Office totaled \$1,175,509. Administrative expenses paid to employees, vendors, and for Indirect Cost totaled \$825,671. Cash received from EPA grant funds and State matching funds totaled \$16,769,171. Total loan disbursements to borrowers totaled \$27,661,643. These amounts can be seen on the Statement of Cash Flows.

We would like to see a decrease in the current cash balance of nearly \$50,000,000, because that would indicate CWSRF funds are being used by Oregon communities to help reduce water pollution around the State. During 2002 we did not disburse as much in loan proceeds as we would have liked, as CWSRF borrowers' projects are not proceeding as quickly as originally anticipated. We are hopeful that the pace of our projects will increase in the next two years. The projected amount of disbursements for fiscal year 2003 is \$33,853,680, which is still a slower pace of disbursement than we would like to see.

Business Decisions Affecting the CWSRF

There are several key items that CWSRF staff are currently developing that will have some impact on the Fund. During fiscal year 2002 an effort was started to make certain changes to the Oregon Administrative Rules (OAR) under which the program is operated. These rule changes are intended to make CWSRF funding more accessible for both point and non-point source pollution projects. Examples of proposed changes, which must be approved by the DEQ's governing body, the Environmental Quality Commission (EQC), include the addition of new types of eligible projects (security projects, emergency projects), a simplified application process (a single application, rather than two applications), reduced interest rates, elimination of the loan origination fee, and new criteria that will be used to score projects.

The interest rate reduction and elimination of the loan fee will not adversely affect the growth of the CWSRF in future years, particularly as long as we continue to receive federal capitalization grants. The reduction in interest rate will now be tied to the length of the loan, with the highest rate (for a 20 year loan) being just a little less than the current rate. We believe that most borrowers will choose the 20 year option, since that will result in the lowest annual payments, with the least impact on borrowers' sewer rates. With the elimination of the loan origination fee there will still be an annual servicing fee of 0.5% of the unpaid loan balance. With \$250,000,000 in outstanding loans now, and a growing fund, we believe this will provide adequate funding for future administrative costs of the program.

Many states around the country increase the amount of immediately available loan funds by issuing revenue bonds, backed by the CWSRF program revenues, and loan those bond proceeds. This "leveraging" of the program provides more loan funds in the short term, however it places a strain on program resources in future years as the program must repay the bonds. Oregon has considered leveraging its program, however we have made the decision not to leverage at this time.

What's Ahead For 2003

Even though the CWSRF program has more than \$60,000,000 in available funds for fiscal year 2003, there is considerably more need around the State for water pollution control that could be funded by the program. At the present time there are 143 projects with an estimated cost of \$335,578,444 on our Project Priority List. This list is the total of all Preliminary Applications that have been received by the program.

The last several years' capitalization grants from EPA have averaged approximately \$15,000,000 per year. The 2003 proposed budget for EPA includes an increase in the amount appropriated for the CWSRF. This would increase Oregon's grant to approximately \$16,600,000, with an associated required state match of \$3,320,000. If appropriated by Congress, the amount of funds available to CWSRF borrowers in Oregon during 2003 would be approximately \$62,000,000.

Congress is also considering a bill (Senate Bill 1961) that would reauthorize the Clean Water Act and increase CWSRF funding significantly for the next five years. Should this bill be signed into law, the amount of Oregon's grant could increase to as much as \$30,000,000 in 2003 and 2004. Clearly this would increase the amount of available CWSRF funds in Oregon significantly (including the amount of required match).

Matching funds for the 2003 and 2004 grants will be provided by the State's sale of Lottery Revenue Bonds, which means the program will not have to service the debt for these funds.

Should the program have to raise its own match in future years, it would have a material impact on the amount of loan funds that will be available, because the debt service for match bonds would have to come from the CWSRF.

Conclusion

The financial position of Oregon's CWSRF continues to be healthy and is growing. We believe this growth will continue in future years as more loans are executed and borrowers continue to repay existing loans. The financial statements, footnotes and supplemental information provided in this annual report provide a detailed analysis of the program's financial position and results of operations.

Questions about the Oregon CWSRF loan program should be directed to the Oregon DEQ, CWSRF Coordinator, 811 S.W. 6th Avenue, Portland OR 97204. Financial questions should be addressed to Rick Watters, CWSRF Accountant, at the same address.

OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY
Clean Water State Revolving Fund Loan Program
Statement of Net Assets
June 30, 2002

Assets	SRF	Administration	Total
Current			
Cash and Cash Equivalents	47,630,109	1,742,038	49,372,147
Loan Interest Receivable	3,821,581	0	3,821,581
Investment Interest Receivable	0	0	0
Due From EPA	69,881	0	69,881
Loans Receivable	9,873,895	0	9,873,895
	<u>61,395,466</u>	<u>1,742,038</u>	<u>63,137,504</u>
Non-Current			
Loans Receivable, net of Current Portion	237,158,579	0	237,158,579
	<u>237,158,579</u>	<u>0</u>	<u>237,158,579</u>
Total Assets	<u>298,554,045</u>	<u>1,742,038</u>	<u>300,296,083</u>
Liabilities			
Accounts Payable	0	3,164	3,164
Payroll Payable	0	52,542	52,542
Construction Costs Payable	53,610	0	53,610
Due To Other Funds	0	80	80
Total Liabilities	<u>53,610</u>	<u>55,786</u>	<u>109,396</u>
Net Assets			
Unrestricted	298,500,435	1,686,252	300,186,687
	<u>298,500,435</u>	<u>1,686,252</u>	<u>300,186,687</u>
Total Liabilities and Net Assets	<u>298,554,045</u>	<u>1,742,038</u>	<u>300,296,083</u>

The accompanying notes are an integral part of these financial statements.

OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY				
Clean Water State Revolving Fund Loan Program				
Statement of Revenues, Expenses and Changes in Net Assets				
For the Year Ended June 30, 2002				
		SRF	Administration	Total
Operating Revenues				
Loan Interest		7,796,945	0	7,796,945
Loan Fees		0	2,307,346	2,307,346
Investment Earnings		1,089,942	85,567	1,175,509
		8,886,887	2,392,913	11,279,800
Operating Expenses				
Salaries and Benefits		0	602,142	602,142
Supplies and Equipment		0	95,911	95,911
Indirect Costs		0	115,612	115,612
		0	813,665	813,665
Operating Income		8,886,887	1,579,248	10,466,135
Transfers In (Out)		2,188,547	-2,188,547	0
EPA Grants Received		13,759,264	0	13,759,264
State Match Contributions		3,011,996	0	3,011,996
Increase in Net Assets		27,846,694	-609,299	27,237,395
Net Assets, Beginning of Year		270,653,741	2,295,551	272,949,292
Net Assets, End of Year		298,500,435	1,686,252	300,186,687

The accompanying notes are an integral part of these financial statements.

OREGON DEPARTMENT OF ENVIRONMENTAL QUALITY
Clean Water State Revolving Fund Loan Program
Statement of Cash Flows
For the Year Ended June 30, 2002

	<u>2002</u>
Cash Flows From Operating Activities:	
Cash received from loan interest repayments	10,851,100
Cash received from Treasury interest credits	1,175,509
Cash received from loan fees	2,307,346
Cash payments to:	
Vendors	(112,637)
Employees	(597,423)
Indirect Cost	(115,611)
	<u>13,508,284</u>
Net Cash Provided by Operating Activities	13,508,284
Cash Flows From Noncapital Financing Activities	
Transfers from SRF Fund to admin fund	(811,453)
Transfers received by administration fund	811,453
	<u>0</u>
Net Cash Provided by Noncapital Financing Activities	0
Cash Flows From Capital and Related Financing Activities	
Funds Received From EPA	13,757,175
Funds Received From The State of Oregon	3,011,996
Transfer to SRF fund from fees fund	(3,000,000)
Transfer received by SRF fund	3,000,000
	<u>16,769,171</u>
Net Cash Provided by Capital and Related Financing Activities	16,769,171
Cash Flows From Investing Activities	
Loan Disbursements	(27,661,643)
Repayment of Loan Principal	7,759,836
	<u>(19,901,807)</u>
Net Cash Used in Investing Activities	(19,901,807)
Increase (Decrease) in Cash and Cash Equivalents	10,375,648
Cash and Cash Equivalents, Beginning of Year	38,996,499
Cash and Cash Equivalents, End of Year	49,372,147
Reconciliation of operating income to net cash provided by operating activities	
Operating Income	10,466,135
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease in loan interest receivable	3,054,155
Decrease in accounts payable	(16,659)
Increase in payroll payable	4,711
Decrease in amount due to other funds	(58)
Total adjustments:	3,042,148
Net cash provided by operating activities	<u>13,508,284</u>

NOTES TO FINANCIAL STATEMENTS

1. **Organization of the Fund**

The Oregon Clean Water State Revolving Fund (the Fund) was established pursuant to Oregon Revised Statutes 468.423 – 468.440. The State Revolving Fund (SRF) program replaces an earlier construction grants program. The purpose of the SRF is to provide low interest loans to local governments for the purpose of constructing wastewater treatment facilities, nonpoint source pollution control facilities, and estuary management plans. The loan repayment period ranges from five to 20 years, and all repayments, including interest and principal, must be credited to the State Revolving Fund.

The SRF program is administered by the State of Oregon's Department of Environmental Quality (ODEQ), and consists of various loan funds to record loan and related activity and an administrative fund that collects fees and pays the operating costs of the program, and are collectively referred to as the Fund. The Department's primary responsibilities for the SRF include obtaining capitalization grants from EPA, soliciting potential interested parties for loans, negotiating loan agreements with local communities, reviewing and approving payment requests from loan recipients, monitoring the loan repayments, and conducting inspection and engineering reviews to ensure compliance with all applicable laws, regulations, and program requirements.

The ODEQ oversees administration of the Fund. ODEQ staff charges the Fund for time spent on SRF activities, and the Fund reimburses ODEQ for such costs in the following month. The charges include the salaries and benefits of the employees, as well as indirect costs allocated to the Fund. The rate of indirect cost is negotiated annually with the EPA. Employees charging time to the Fund are covered by the benefits available to Oregon State Employees. The Fund is also charged indirect costs through the cost allocation plan for general state expenses.

The Fund financial statements, footnotes, and required supplemental information are presented for the U.S. Environmental Protection Agency. The Fund is included in the Oregon general purpose financial statements as a special revenue fund which uses the modified accrual basis of accounting. Due to differences in reporting methods, there may be differences between the amounts reported in these financial statements and the general purpose financial statements.

2. **Summary of Significant Accounting Policies**

Basis of Accounting

The financial statements for the Fund are presented as an enterprise fund. As such, the Fund is accounted for using the flow of economic resources measurement focus and is maintained on the accrual method of accounting. Under the accrual method of accounting, revenues are recognized when earned and expenses are recorded at the time the liabilities are incurred. All assets and liabilities associated with the operations of the Fund are included on the balance sheet. The State has elected to follow the accounting pronouncements of the Governmental Accounting Standards Board (GASB), as well as statements issued by the Financial Accounting Standards Board on or before November 30, 1989, unless the pronouncements conflict with or contradict GASB pronouncements.

GASB Statement No. 34

In June 1999 the Governmental Accounting Standards Board (GASB) issued its Statement Number 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments”. This statement changes the way in which many state and local governments will account for their activities. It also changes the format of the basic financial statements somewhat. The State of Oregon changed its accounting to comply with the GASB 34 requirements in fiscal year 2002, and the Oregon CWSRF is likewise complying with those requirements in 2002.

Cash and Cash Equivalents

All monies of the Fund are deposited with the Oregon Treasurer’s Office which is responsible for maintaining these deposits in accordance with Oregon law. The Fund considers all such deposits to be cash. Investment interest earnings on these deposits are received by the Fund on a monthly basis. According to State law, the Treasurer is responsible for maintaining the cash balances and investing excess cash of the Fund, as further discussed in Note 3. Consequently, management of the Fund does not have any control over the investment of the excess cash. The statement of cash flows considers all funds deposited with the Treasurer to be cash or cash equivalents, regardless of actual maturities of the underlying investments.

Loans Receivable

The loans are funded by Federal capitalization grants, State matching funds, loan repayments and fund earnings. The SRF monies are disbursed to borrowers on a cost reimbursement basis. When the borrowers have incurred qualifying expenses, they request a loan disbursement from the Fund, and at that time, a disbursement is made and

recorded in the Fund accounting records. Interest begins accruing when funds are disbursed to the borrower. After the final disbursement repayment begins with an interest only payment. Full repayment must be received by the Fund within 20 years of project completion. There is no provision for uncollectible accounts, as all repayments are current, and program management believes all loans will be repaid according to the loan terms.

Net Assets

In previous annual reports the balance sheet included a "Fund Equity" section, which included amounts received from EPA, State of Oregon matching funds, and earnings retained in the program. In the new balance sheet format, all such amounts are summarized in the "Net Assets" figure. Generally accepted accounting principles (GAAP), under GASB 34, now require the balance sheet to include in the Net Assets section the amount of investment in capital assets, net of related borrowing, and net assets (restricted and non-restricted). The CWSRF program has no capital assets at this time, which results in a single amount of Net Assets on the balance sheet.

3. Cash and Cash Equivalents

All cash in the Fund is deposited with the State Treasurer who is responsible for maintaining and investing the pooled cash balances in accordance with State laws. The Treasurer is required to maintain a mix of investments in order to allow funds to be withdrawn at any time to meet normal operating needs. The Fund's share of the investment income is based on the average daily balance for the period and is credited to the Fund monthly. Details of the investments can be obtained from the State Treasurer's Office.

All cash and investments are stated at cost, which approximates fair market value. Investments held by the State Treasurer's Office are not categorized because they are not evidenced by securities that exist in physical or book entry form.

	<u>Carrying Amount</u>	<u>Market Value</u>
Not subject to categorization:		
Deposited with State Treasurer's Office	<u>\$ 49,372,147</u>	<u>\$ 49,372,147</u>

4. Loans Receivable

The Fund makes loans to qualified entities at interest rates ranging from zero percent to 4.71 percent. Rates depend on the length of the loan, the type of loan, and program rules. Prior to 1995 rates were either zero percent or three percent, depending on the length of the repayment period. In 1995 this rule was changed to base loans on the average rate for state and local bond issues. The rate for facilities planning loans is one-half the bond rate, and the rate for design and construction loans is the greater of either two-thirds the bond rate or the bond rate minus 200 basis points (two percent). Maturities are from five to 20 years. Recipients make semiannual or, in some cases, annual payments, starting six months after project completion. Details of loans receivable as of June 30, 2002 are as follows:

	Loan <u>Authorized</u>	Remaining <u>Commitment</u>	Outstanding <u>Balance</u>
Completed projects	\$247,816,814	\$ 0	\$168,380,111
Projects in progress	<u>124,858,363</u>	<u>78,652,363</u>	<u>78,652,363</u>
Totals	<u>372,675,177</u>	<u>78,652,363</u>	<u>247,032,474</u>
Less amounts due within one year			9,873,895
Loans receivable, June 30, 2002			\$237,158,579

Loans mature at various intervals through October 1, 2024. The scheduled minimum principal repayments in future years are as follows:

Year ending June 30:	<u>Amount</u>
2003	\$ 9,873,895
2004	11,781,142
2005	12,287,710
2006	12,526,020
2007	12,628,273
Thereafter	<u>178,061,539</u>
Total	<u>\$237,158,579</u>

Loans to Major Local Agencies:

From the inception of the Clean Water State Revolving Fund, as of June 30, 2002, the Fund made loans to 13 local governments that totaled \$10,000,000 or more, and in the aggregate, exceeded \$250,000,000. The outstanding balances of these loans represent approximately 80 percent of the total loans receivable, as follows:

Authorized

<u>Borrower</u>	<u>Loan Amount</u>	<u>Outstanding</u>	<u>Status</u>
City of Ashland	\$ 23,420,068	\$22,363,389	Active
City of Brookings	13,100,000	13,100,000	Active
City of Corvallis	21,963,693	20,502,344	Repayment
City of Cottage Grove	11,125,000	0	New
City of Dallas	14,880,000	13,515,716	Repayment
City of Eugene	25,592,592	5,438,793	Repayment
City of Florence	13,480,958	11,894,543	Active
City of Gresham	43,191,498	37,928,738	Repayment
City of Newport	20,228,883	20,069,671	Active
City of Ontario	13,971,689	10,296,991	Repayment
City of Portland	14,105,382	0	Paid
City of Redmond	12,060,000	5,908,388	Active
City of Woodburn	<u>30,349,671</u>	<u>29,081,513</u>	Repayment
TOTAL	<u>\$ 257,469,434</u>	<u>\$ 190,100,086</u>	

5. Fixed Assets

The only fixed assets are equipment. During fiscal year 2002 there were no purchases of equipment, and the existing CWSRF loan program capital assets have all been fully depreciated.

6. Federal Grants and State Match

The Fund is capitalized through the Catalog of Federal Domestic Assistance (CFDA) 66.458, Capitalization Grants for SRF, through EPA. These grants have been awarded annually. The State of Oregon must also contribute an amount equal to 20 percent of the federal capitalization amount. Oregon's matching contribution has been provided through appropriation of State general fund resources and general obligation bonds of the State. As of June 30, 2002, EPA has awarded capitalization grants in the amount of \$221,383,526 to the State of Oregon, of which \$207,789,197 has been drawn for loans and administrative expenses. The State has provided matching funds of \$44,276,706. The following summarizes the capitalization grant awards, amounts drawn on each grant as of the balance sheet date, and balances available for loans and administrative costs:

	Grant Amount	Total Draws As of June 30, 2001	2002 Draws	Total Draws as of June 30, 2002	Grant Funds Available June 30, 2002
1989	\$ 10,655,073	\$ 10,655,073	\$ 0	\$ 10,655,073	\$ 0
1990	11,021,373	11,021,373	0	11,021,373	0
1991	23,183,622	23,183,622	0	23,183,622	0
1992	21,949,191	21,949,191	0	21,949,191	0
1993	21,712,581	21,712,581	0	21,712,581	0
1994	13,472,415	13,472,415	0	13,472,415	0
1995	13,914,054	13,914,054	0	13,914,054	0
1996	22,791,123	22,791,123	0	22,791,123	0
1997	7,011,959	7,011,959	0	7,011,959	0
1998	15,211,548	15,211,548	0	15,211,548	0
1999	15,212,835	14,643,832	569,003	15,212,835	0
2000	15,161,256	14,554,806	242,450	14,797,256	364,000
2001	15,026,517	3,910,445	10,515,011	14,425,456	601,061
2002	15,059,979	0	2,430,711	2,430,711	12,629,268
Totals	\$ 221,383,526	\$ 194,032,022	\$ 13,757,175	\$ 207,789,197	\$ 13,594,329

As of June 30, 2001 and 2002, state matching contributions were as follows:

	June 30, 2001	2002 Contribution	June 30, 2002
Oregon State Matching Contribution	\$ 41,264,710	\$ 3,011,996	\$ 44,276,706

7. Loan Fees

In order to support administration and project management costs after the federal capitalization grant funds are depleted, loan fees are assessed on all loans originating after 1992. A loan origination fee of 1.5 percent is assessed at the beginning of the repayment period, and an annual fee of 0.5 percent is assessed on the outstanding balance. The fees are deposited to an account outside the Fund and will be used only for administrative and project management costs. Revenues in this account are shown in the table following:

	One Time Fee	Annual Fee	Total
FY 1994	\$ 0	\$ 325	\$ 325
FY 1995	1,189	0	1,189
FY 1996	114,629	33,764	148,393
FY 1997	63,335	59,577	122,912
FY 1998	140,641	72,422	213,063
FY 1999	155,710	83,706	239,416

FY 2000	349,738	156,545	506,283
FY 2001	574,998	328,385	903,383
FY 2002	1,467,025	840,321	2,307,346
TOTAL	<u>\$ 2,867,265</u>	<u>\$ 1,575,045</u>	<u>\$4,442,310</u>

In April 2002 CWSRF program management decided to transfer \$3,000,000 from the Fees fund into the Loan fund, because future fee income will be adequate to pay for administrative costs, and the \$3,000,000 could be used for water quality projects.

8. **Contingencies, Related Parties, and Subsequent Events**

Contingencies

The Fund is exposed to various risks of loss related to torts, thefts of assets, errors or omissions, injuries to state employees while performing Fund business, or acts of God. The State maintains insurance for all risks of loss which is included in the indirect costs allocated to the Fund.

In previous years the State of Oregon has been named in suits against CWSRF borrowers, by citizens either claiming unlawful sewer rate increases or unlawful debt. These suits have been decided in favor of our borrowers and the State of Oregon, and we are unaware of any such contingencies in existence at this time.

Related Parties

There are no related party transactions with or related amounts receivable from management of the Fund.

Subsequent Events

There were no subsequent events following the fiscal year end that require disclosure in the notes to these financial statements.

SUPPLEMENTAL INFORMATION

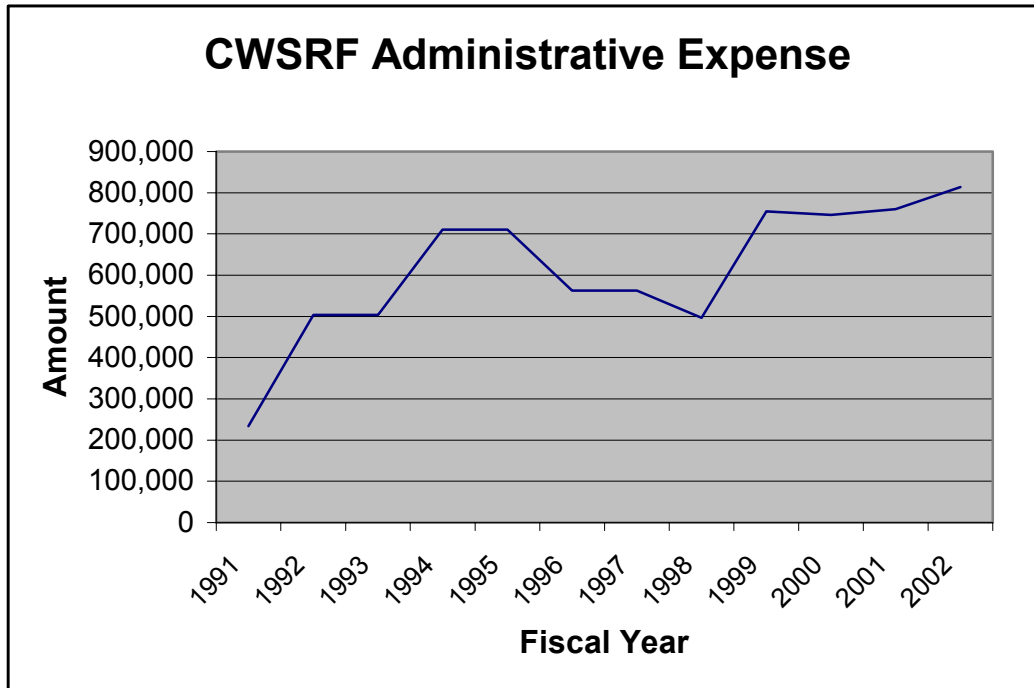
The following schedules provide additional information that may be useful to the financial statement reader. These schedules provide data about future program activity, loan security provisions, and certain U.S. Environmental Protection Agency requirements.

The table below shows the capitalization funding of the Clean Water State Revolving Fund since its inception through June 2002. It shows federal capitalization grants received from EPA and state matching funds, as well as how funds are allocated between loans and fund administration.

CWSRF CAPITALIZATION

Federal Fiscal Year	Capitalization Grant Award	20% State Match	Administrative Allowance (4% of Grant)	Net Available for Loans
1989	10,655,073	2,131,015	(426,203)	12,359,885
1990	11,021,373	2,204,275	(440,855)	12,784,793
1991	23,183,622	4,636,724	(927,345)	26,893,001
1992	21,949,191	4,389,838	(877,968)	25,461,061
1993	21,712,581	4,342,516	(868,503)	25,186,594
1994	13,472,415	2,694,483	(538,897)	15,628,001
1995	13,914,054	2,782,811	(556,562)	16,140,303
1996	22,791,123	4,558,224	(911,645)	26,437,702
1997	7,011,959	1,402,392	(280,478)	8,133,873
1998	15,211,548	3,042,310	(608,462)	17,645,396
1999	15,212,835	3,042,568	(608,513)	17,646,890
2000	15,161,256	3,032,251	(606,450)	17,587,057
2001	15,026,517	3,005,303	(601,061)	17,430,759
2002	15,059,979	3,011,996	(602,399)	17,469,576
Totals	\$221,383,526	\$44,276,706	(\$8,855,341)	\$256,804,891

The graph below illustrates the administrative expenses of the CWSRF loan program, year-by-year, since program inception:



This table documents the planned schedules for active loans, and also lists the loan terms for each of these loans. This table provides an estimate of future demand on the State Revolving Fund.

Borrower	Loan Number	Date Loan Signed	Start Date	Completion Date	Loan Amount	Term (Yrs)	Interest Rate	One-Time Fee	Annual Fee
Ashland	R11750	2/18/1998	10/1/1998	11/02E	23,420,068	20	3.43%	1.5%	0.5%
BCVSA	R14002	2/21/2002	8/1/02E	11/30/02E	305,000	20	3.51%	1.5%	0.5%
BCVSA	R14003	2/21/2002	7/1/02E	11/30/02E	663,000	20	3.51%	1.5%	0.5%
Burns	R19400	9/25/1997	2/1/1999	11/02E	2,100,000	20	3.69%	1.5%	0.5%
Coburg	R23040	3/20/2002	2/15/02E	9/30/02E	150,000	5	2.63%	1.5%	0.5%
Coburg	R23041	3/20/2002	1/8/03E	10/1/04E	3,500,000	20	3.51%	1.5%	0.5%
Cottage Grove	R24571	1/27/1997	9/02E	11/00E	1,725,000	20	3.77%	1.5%	0.5%
Cottage Grove	R24572	1/27/1997	9/02E	10/04E	9,400,000	20	3.77%	1.5%	0.5%
Dufur	R29521	3/12/2002	6/01/02E	10/31/02E	450,000	20	3.51%	1.5%	0.5%
Florence	R33421	9/24/1998	6/5/1999	3/1/2001	13,245,000	20	3.43%	1.5%	0.5%
Garibaldi	R35610	3/24/1997	6/1/1997	5/1/1999	431,474	20	3.77%	1.5%	0.5%
Gov't Camp S.D.	R38350	6/29/1999	6/29/1999	12/8/2000	3,500,000	20	3.39%	1.5%	0.5%
Grants Pass	R38671	6/26/2001	7/1/2002E	6/30/05E	7,000,000	20	3.43%	1.5%	0.5%
Gresham	R39188	3/20/1998	7/02E	6/03E	832,000	20	3.43%	1.5%	0.5%
Haines	R40350	1/12/2001	5/1/2001	6/02E	100,000	20	3.75%	1.5%	0.5%
Hines	R44630	12/4/2000	11/00E	1/03E	76,000	5	2.82%	1.5%	0.5%
La Grande	R54330	6/21/2000	7/1/2000	12/02E	9,767,068	20	3.83%	1.5%	0.5%
Lakeside	R54435	6/28/1999	5/01/1999E	10/02E	114,716	5	2.54%	1.5%	0.5%
Maywood Park	R63960	5/1/2002	7/01/02E	12/31/02E	30,000	5	2.66%	1.5%	0.5%
Miles Crossing	R65230	2/9/2001	2/9/2001E	12/02E	80,000	5	2.82%	1.5%	0.5%
Monument	R66390	5/18/1999	5/18/1999	9/02E	200,000	20	3.39%	1.5%	0.5%
Myrtle Creek	R67980	6/29/2001	7/1/2001	1/04E	8,797,397	20	3.43%	1.5%	0.5%
Powers	R74350	1/22/2002	12/01E	9/02E	20,000	20	3.51%	1.5%	0.5%
Prairie City	R74420	9/26/2000	10/1/2000E	12/02E	1,045,000	20	3.85%	1.5%	0.5%
Prineville	R74681	4/22/2002	7/1/02E	12/04E	7,262,847	20	3.55%	1.5%	0.5%
Rainier	R75260	2/20/1997	5/1/1997	3/31/2000	171,685	7	2.83%	1.5%	0.5%
Redmond	R76071	3/25/1997	2/1/1999	7/29/2000	12,060,000	20	3.77%	1.5%	0.5%
Stanfield	R87160	9/19/1997	10/1/1997	9/02E	127,844	5	2.77%	1.5%	0.5%
Tillamook	R91562	3/24/1997	7/1/1997	1/15/1999	1,929,808	20	3.77%	1.5%	0.5%
Unity	R93091	3/3/1998	11/22/1999	12/1/1999	215,175	20	3.43%	1.5%	0.5%
Vale	R93221	5/7/1998	8/8/2000	12/14/2000	1,300,000	20	3.43%	1.5%	0.5%
Veneta	R93621	2/25/1998	5/1/2000	8/1/2000	1,283,420	20	3.43%	1.5%	0.5%
Warrenton	R94940	3/31/1997	9/98E	5/1/2000	250,000	20	3.77%	1.5%	0.5%
Warrenton	R94941	6/3/1998	8/98E	3/03E	100,000	5	2.60%	1.5%	0.5%
Wedderburn S.D.	R95510	11/22/1999	7/99E	9/02E	85,924	5	2.86%	1.5%	0.5%
Total					\$111,738,426				

(1) Dates followed by an "E" are estimates.

(2) On projects that include construction: The "Start Date" is the Construction Start Date. The "Completion Date" is the Initiation of Operations Date.

(3) Projects are deleted from this list when fully disbursed.

The table below lists all loan balances (including accrued interest) as of June 30, 2002, grouped by security provisions.

Borrower	Loan Number	General Obligation Bonds	Special Assessmt Bonds	Revenue-Secured Direct Loans				
				First Lien	Parity With Other Loans	Subordinate To Other Loans	Parity With Revenue Bonds	Subordinate To Revenue Bonds
Albany	R10510							1,630,938
Ashland	R11750			24,119,172				
Bandon	R12911	934,330						
Bandon	R12912			971,362				
Bear Creek Valley	R14000			394,420				
Bear Creek Valley	R14001			4,301,492				
Boardman	R16200			10,599				
Brookings	R18230			13,301,413				
Burns	R19400			312,103				
Canyonville	R20590			578,529				
Carlton	R20880				139,898			
Clackamas S.D.	R22401							2,206,426
Clatskanie	R22650			6,516				
Condon	R23721			222,221				
Coquille	R24291			1,034,070				
Corvallis	R24480					476,809		
Corvallis	R24481					20,565,389		
Dallas	R26111			13,980,087				
Eagle Point	R30021			1,506,309				
Eugene	R31794		383,753					
Eugene	R31795		696,814					
Eugene	R31796		719,467					
Eugene	R31797			2,323,842				
Eugene	R31798			1,353,820				
Florence	R33420			83,203				
Florence	R33421			11,990,119				
Garibaldi	R35610			380,639				
Gold Beach	R37810			69,502				
Gov't Camp S.D.	R38350	3,043,201						
Grants Pass	R38670			45,334				
Gresham	R39180							707,850
Gresham	R39181							1,385,942
Gresham	R39182							1,064,040
Gresham	R39183							821,741
Gresham	R39184							1,658,605
Gresham	R39185							2,064,104
Gresham	R39186							3,452,988
Gresham	R39187							26,980,504
Haines	R40350				59,766			
Harrisburg	R41900	233,359						
Hines	R44630				55,512			
Independence	R47601				686,382			
La Grande	R54330			4,952,902				
Lakeside	R54435				61,399			

Lakeview	R54440	2,591,194							
Miles Crossing	R65230	10,417							
Monument	R66390			207,985					
Mt. Angel	R67210			354,967					
Myrtle Creek	R67980			801,503					
Neskowin	R68650	655,205							
Newport	R68931	12,425,288							
Newport	R68932	8,354,550							
Ontario	R70610	6,318,207							
Ontario	R70611	1,459,750							
Ontario	R70612	2,621,776							
Oregon City	R70651						605,925		
OR WW 2 Sani. Dist.	R70655	93,301							
Prairie City	R74420	500,857							
Prineville	R74680						1,541,316		
Prineville	R74681						2,151,968		
Rainier	R75260	82,515							
Redmond	R76071		5,998,994						
Redwood S.S.D.	R76080	6,041,147							
Rockaway Beach	R78280	31,062							
Roseburg U.S.A.	R78860	714,556							
St. Helens	R80160		871,797						
Sheridan	R83810					242,674			
Siletz	R84460		398,596						
Sisters	R85050		42,674						
Springfield	R86770	742,450							
Springfield	R86771							2,361,726	
Stanfield	R87160					130,398			
Tillamook	R91562	1,557,632							
Tri City Ser.Dist.	R92262	609,122							
Tri-City Sanitary Dist.	R92270	494,294							
Turner	R92630						143,414		
Turner	R92631						38,997		
Umatilla	R93050	6,485							
Unity	R93090	26,014							
Unity	R93091	139,633							
Vale	R93221						1,063,830		
Veneta	R93621						197,303		
Vernonia	R93640						91,261		
Waldport	R94340	71,508							
Waldport	R94341	676,519							
Warrenton	R94940	233,382							
Warrenton	R94941	95,097							
Wedderburn S.D.	R95510	68,317							
Winston-Green	R97790						6,437,734		
Woodburn	R98411	3,622,268							
Woodburn	R98412	25,846,781							
Totals		251,739,260	4,210,890	1,800,034	158,026,981	9,679,473	21,415,270	12,271,748	44,334,864
% of Total		100.0%	1.7%	0.7%	62.8%	3.9%	8.5%	4.9%	17.6%

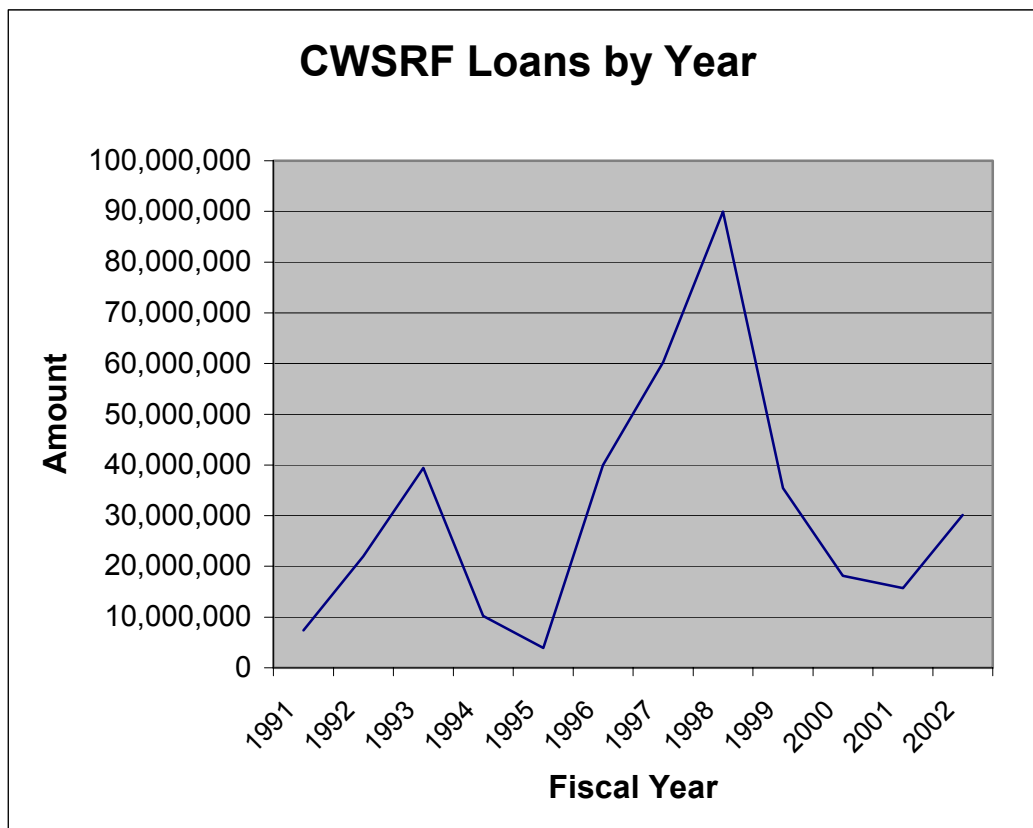
The table below shows all loans which were signed or received increases or decreases during fiscal year 2002, all administration expense, and compliance with the federal requirement to sign binding commitments (loan agreements) in an amount greater than 120% of federal grant payments within one year of the payment on a cumulative basis.

Borrower	Loan No.	Total at 6/30/01	Qtr. 1 7/01-9/01	Qtr. 2 10/01-12/01	Qtr. 3 1/02-3/02	Qtr. 4 4/02-6/02	FY 2002 Total	Total at 6/30/02
Ashland, City of	R11750	21,767,068			1,653,000		1,653,000	23,420,068
Bear Creek Valley	R14001	5,598,406	(1,292,999)				(1,292,999)	4,305,407
Bear Creek Valley	R14002	0			305,000		305,000	305,000
Bear Creek Valley	R14003	0			663,000		663,000	663,000
Coburg	R23040	0			150,000		150,000	150,000
Coburg	R23041	0			3,500,000		3,500,000	3,500,000
Cottage Grove	R24572	3,010,000			3,720,000	2,670,000	6,390,000	9,400,000
Dufur	R29521	0			450,000		450,000	450,000
Florence, City of	R33421	13,245,000					0	13,245,000
Garibaldi, City of	R35610	431,474					0	431,474
Gov't Camp S.D.	R38350	3,500,000					0	3,500,000
Grants Pass, City of	R38671	2,734,754			4,265,246		4,265,246	7,000,000
Gresham, City of	R39187	28,882,704				(1,577,456)	(1,577,456)	27,305,248
Haines, City of	R40350	100,000					0	100,000
Hines, City of	R44630	76,000					0	76,000
Independence, City of	R47601	3,173,673	20,342				20,342	3,194,015
La Grande, City of	R54330	6,767,068			3,000,000		3,000,000	9,767,068
Lakeside, City of	R54435	114,716					0	114,716
Maywood Park, City of	R63960	0				30,000	30,000	30,000
Miles Crossing S.D.	R65230	80,000					0	80,000
Monument, City of	R66390	200,000					0	200,000
Myrtle Creek, City of	R67980	3,797,397				5,000,000	5,000,000	8,797,397
Newport, City of	R68931	12,169,671					0	12,169,671
OR WW II S.D.	R70655	90,000				(500)	(500)	89,500
Powers, City of	R74350	0			20,000		20,000	20,000
Prairie City	R74420	1,045,000					0	1,045,000
Prineville, City of	R74681	0				7,262,847	7,262,847	7,262,847
Rainier, City of	R75260	108,685			63,000		63,000	171,685
Redmond, City of	R76071	12,060,000					0	12,060,000
Redwood S.S.S.D.	R76080	6,009,671		(47,621)			(47,621)	5,962,050
Tillamook, City of	R91562	1,450,000	479,808				479,808	1,929,808

Veneta, City of	R93621	1,283,420				0	1,283,420
Waldport, City of	R94341	750,000	(32,791)			(32,791)	717,209
Waldport, City of	R94342	25,000			(25,000)	(25,000)	0
Warrenton, City of	R94940	250,000				0	250,000
Warrenton, City of	R94941	100,000				0	100,000
Wedderburn S.D.	R95510	85,924				0	85,924
Winston, City of	R97790	6,940,000	(123,765)			(123,765)	6,816,235
All Other Loans		206,677,435					206,677,435
TOTAL LOANS		342,523,066	(949,405)	(47,621)	17,789,246	13,359,891	372,675,177
Administration Expense		6,544,222	186,288.22	208,364.55	198,670.30	220,218.93	7,357,764
Total Binding Commitments		349,067,288	(763,117)	160,744	17,987,916	13,580,110	380,032,941
Cumulative		349,067,288	348,304,171	348,464,915	366,452,831	380,032,941	
Federal Payments (Prior Year)			0	0	7,513,259	7,513,258	15,026,517
Cumulative		191,297,030	191,297,030	191,297,030	198,810,289	206,323,547	206,323,547
Binding Commitments/ Federal Payments		182%	182%	182%	184%	184%	184%

This table demonstrates compliance with 40 CFR §35.3135 (c).

Below is a graphic illustration of the loans executed by the Oregon CWSRF loan program since its inception:

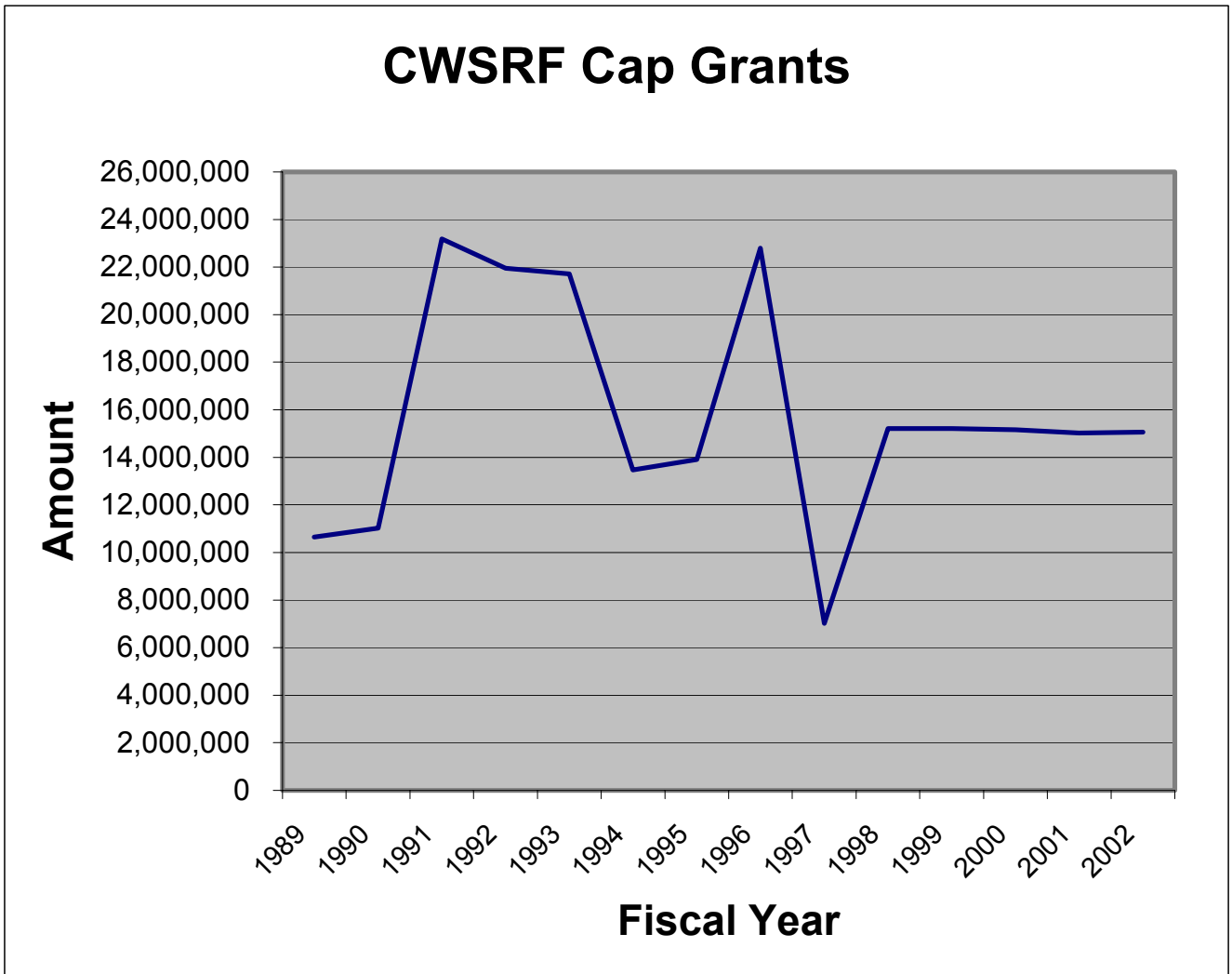


The table below shows the availability of federal funds according to the grant payment schedule, the actual transfer of state matching funds, and compliance with the requirement that the cumulative state match transfers equal at least 20% of the cumulative federal payments available.

Sources of Funds	Total at 6/30/2001	Qtr. 1 7/01-9/01	Qtr. 2 10/01-12/01	Qtr. 3 1/02-3/02	Qtr. 4 4/02-6/02	FY 2002 Totals	Total at 6/30/2002
Federal Grant Payments:							
89 Grant	10,655,073					0	10,655,073
90 Grant	11,021,373					0	11,021,373
91 Grant	23,183,622					0	23,183,622
92 Grant	21,949,191					0	21,949,191
93 Grant	21,712,581					0	21,712,581
94 Grant	13,472,415					0	13,472,415
95 Grant	13,914,054					0	13,914,054
96 Grant	22,791,123					0	22,791,123
97 Grant	7,011,959					0	7,011,959
98 Grant	15,211,548					0	15,211,548
99 Grant	15,212,835					0	15,212,835
00 Grant	15,161,256					0	15,161,256
01 Grant	15,026,517					0	15,026,517
02 Grant	0				15,059,979	15,059,979	15,059,979
Total	206,323,547	0	0	0	15,059,979	15,059,979	221,383,526
Cumulative:	206,323,547	206,323,547	206,323,547	206,323,547	221,383,526		
State Match:							
89 Grant	2,131,015					0	2,131,015
90 Grant	2,204,275					0	2,204,275
91 Grant	4,636,724					0	4,636,724
92 Grant	4,389,838					0	4,389,838
93 Grant	4,342,516					0	4,342,516
94 Grant	2,694,483					0	2,694,483
95 Grant	2,782,811					0	2,782,811
96 Grant	4,558,224					0	4,558,224
97 Grant	1,402,392					0	1,402,392
98 Grant	3,042,310					0	3,042,310
99 Grant	3,042,568					0	3,042,568
00 Grant	3,032,251					0	3,032,251
01 Grant	3,005,303					0	3,005,303
02 Grant	0				3,011,996	3,011,996	3,011,996
Total	41,264,710	0	0	0	3,011,996	3,011,996	44,276,706
Cumulative	41,264,710	41,264,710	41,264,710	41,264,710	44,276,706		
State Match/Federal Payments:							
	20.0%	20.0%	20.0%	20.0%	20.0%		20.0%

This table demonstrates compliance with 40 CFR §35.3135 (b).

This graph illustrates the federal capitalization grants awarded to the CWSRF loan program since its inception:



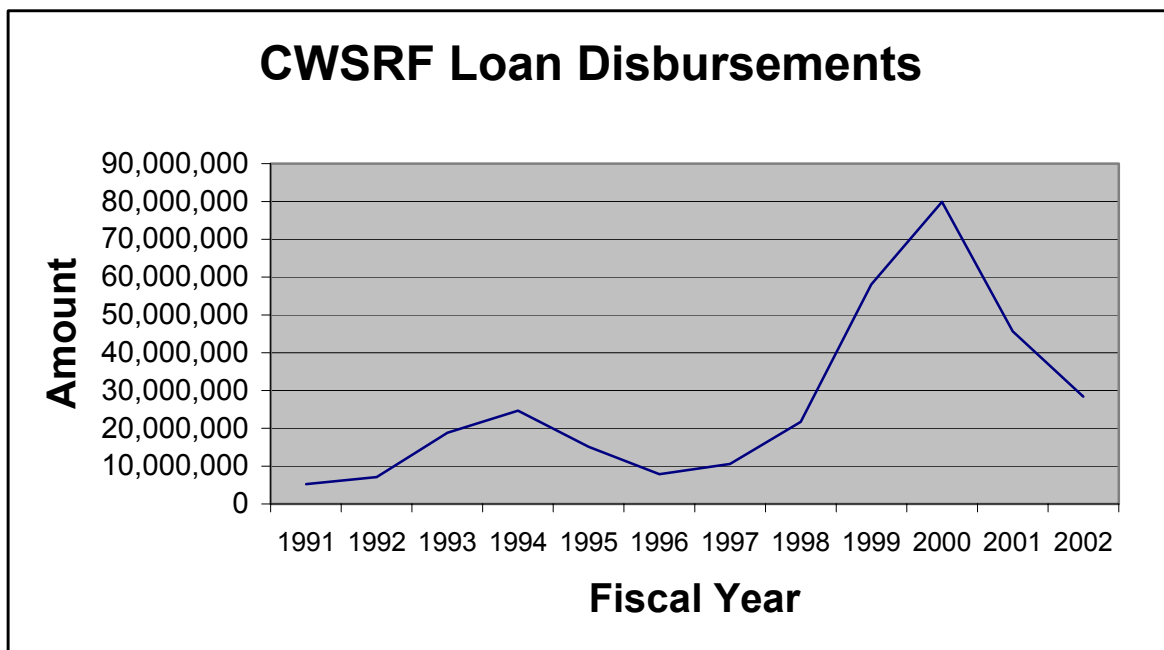
The table below shows all loan disbursements, administration expense, and federal draws made during the fiscal year. It also documents the pace of Oregon's CWSRF program, by indicating the ratio of federal funds utilized to total funds utilized over the life of the program.

Borrower	Loan No.	Total at 6/30/2001	Qtr.1 7/01-9/01	Qtr.2 10/01-12/01	Qtr 3 1/02-3/02	Qtr 4 4/02-6/02	FY 2002 Total	Total at 6/30/2002
Ashland	R11750	17,909,696	608,459	1,378,309	2,466,925		4,453,693	22,363,389
Burns	R19400	266,762			10,190	10,410	20,600	287,362
Dallas	R26111	13,982,238		272,495		245,267	517,762	14,500,000
Florence	R33421	11,817,768	158,352	54,844	12,233		225,429	12,043,197
Garibaldi	R35610	385,839	18,992				18,992	404,831
Gov't Camp	R38350	3,067,539					0	3,067,539
Gresham	R39187	25,910,574	852,469	406,166	136,039		1,394,674	27,305,248
Haines	R40350	0	58,681				58,681	58,681
Hines	R44630	0	10,708	17,554	14,725	11,799	54,786	54,786
Independence	R47601	3,173,673	20,342				20,342	3,194,015
La Grande	R54330	0	1,209,181	3,427,480	199,776		4,836,437	4,836,437
Lakeside	R54435	77,600					0	77,600
Miles Crossing	R65230	10,125					0	10,125
Monument	R66390	144,840	53,439				53,439	198,279
Myrtle Creek	R67980	0		574,438	190,747	22,646	787,831	787,831
Newport	R68931	0	2,847,048	4,110,566	3,198,231	2,013,826	12,169,671	12,169,671
Newport	R68932	7,747,879	152,121				152,121	7,900,000
Prairie City	R74420	0				498,599	498,599	498,599
Prineville	R74681	0				2,149,668	2,149,668	2,149,668
Rainier	R75260	108,685				32,243	32,243	140,928
Redmond	R76071	10,540,648			223,370		223,370	10,764,018
Redwood S.S.S.D.	R76080	5,679,567	247,140	35,343			282,483	5,962,050
Stanfield	R87160	117,934					0	117,934
Tillamook	R91562	1,450,000	229,808	21,609	24,041	29,828	305,286	1,755,286
Unity	R93091	145,700					0	145,700
Vale	R93221	1,082,557					0	1,082,557
Veneta	R93621	1,033,420					0	1,033,420
Warrenton	R94940	199,402	4,459		11,531	874	16,864	216,266
Warrenton	R94941	43,363	27,625		6,922	14,127	48,674	92,037
Wedderburn S.D.	R95510	36,705	23,338		5,634		28,972	65,677
Fully Disbursed Loans		189,905,767						189,905,767
Total Loan Disbursements		294,838,281	6,522,162	10,298,804	6,500,364	5,029,287	28,350,617	323,188,898
Administration Expense		6,544,221	186,288.22	208,364.55	198,670.30	220,218.93	813,542.00	7,357,763
Total Disbursements		301,382,502	6,708,450	10,507,169	6,699,034	5,249,506	29,164,159	330,546,661
Cumulative		301,382,502	308,090,952	318,598,121	325,297,155	330,546,661		
Federal Draws		194,032,022	5,153,225	5,738,884	208,355	2,656,711	13,757,175	207,789,197
Cumulative		194,032,022	199,185,247	204,924,131	205,132,486	207,789,197		
Federal Draws/Disbursements:		64.38%	64.65%	64.32%	63.06%	62.86%		62.86%

Proportionality between federal draws and total fund disbursements continued to decline, to just 62.86%, compared to 64.38% at June 30, 2001. This is because the demand for disbursements is greater than the supply of available federal funds. It is anticipated that

this trend toward less federal disbursements and more repayment disbursements will continue as demand for loan proceeds remains strong.

This graph illustrates the loan disbursements processed by the CWSRF loan program since its inception:

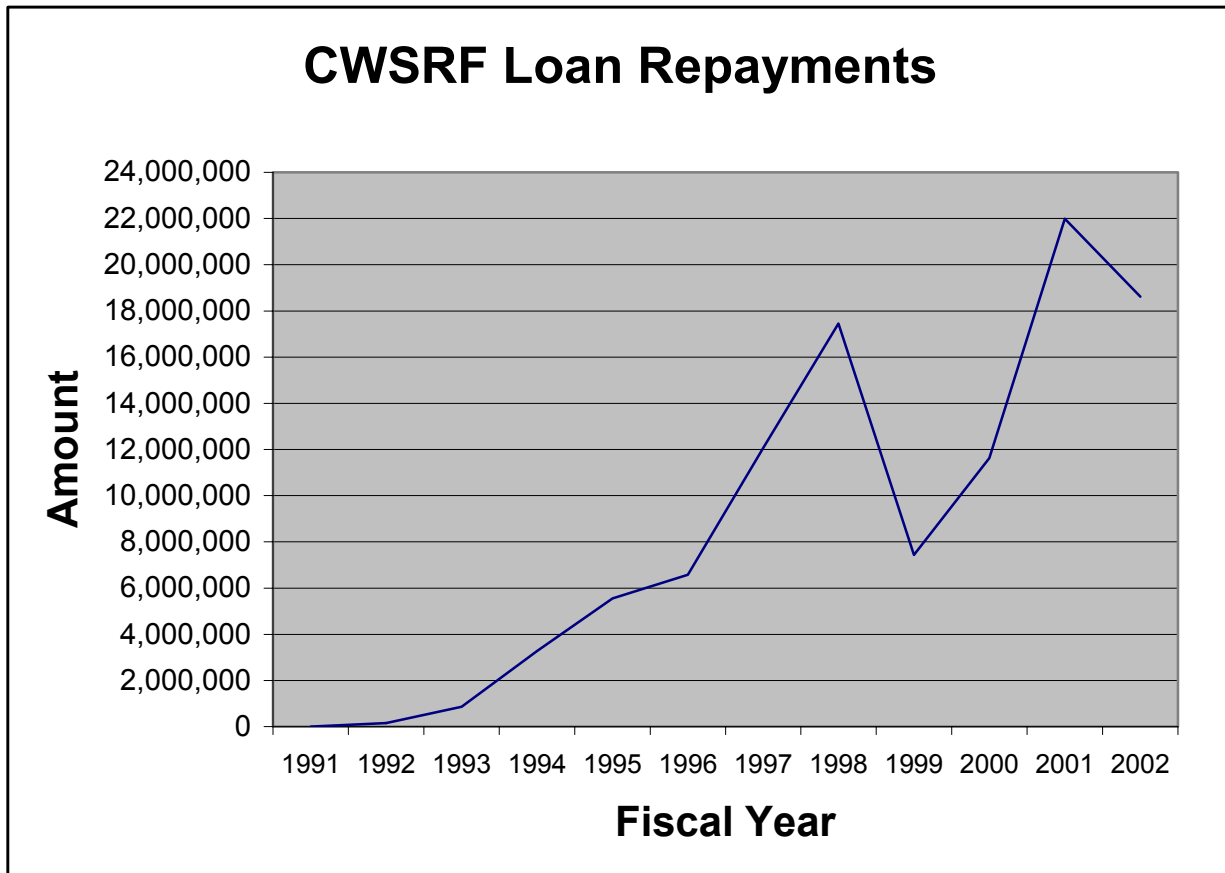


REFINANCING RULE EXCLUSION AND COMPLIANCE

The EPA rules define "refinancing" to include construction costs which have been incurred prior to the signing of the loan agreements. A cumulative exclusion amount of \$2,000,000 per year is available to offset these situations. When the cumulative exclusion is exceeded, payment of the "refinanced" costs will be made ratably over eight quarters. No loans were signed during fiscal year 2002 that included prior construction costs.

	Refinancing Rule Exclusion
Exclusion Available as of 6/30/01	\$19,669,285
Plus FY 2002 Exclusion	2,000,000
Less FY 2002 Exclusion Used	0
Exclusion Available as of 6/30/02	\$21,669,285

The graph below illustrates the amount of loan repayments (principal and interest) received from borrowers by the CWSRF loan program since its inception:



CWSRF FINANCIAL INDICATORS – FY 2002

The following schedule presents the Oregon CWSRF loan program success by documenting the calculation of six financial indicators as developed by the EPA/States Workgroup. These indicators attempt to show Oregon's progress toward funding as many water quality beneficial projects as possible while maintaining the program's equity in perpetuity.

ACTIVITY THRU JUNE 2002:**Indicator #1: Return on Federal Investment**

Shows the amount invested in water quality beneficial projects for each federal dollar invested (total loan disbursements/total federal draws (for loans and administrative costs))

(A) Total Loan Disbursements:	323,188,898
(B) Federal draws for loans:	201,091,520
(C) Federal draws for Admin:	6,697,677
(A)/(B+C)	155.54%

Indicator #2: Percentage of Closed (executed) Loans to Funds Available For Loans

Shows the amount of signed loan agreements compared to the amount of funds available for loans

(A) Amount of signed loan agreements:	372,675,177
(B) Cumulative Cap Grants:	221,383,526
(C) Cumulative State Match:	44,276,706
(D) Loan Principal Repaid:	76,210,033
(E) Operating Profit	
(1) Interest from loans:	29,368,482
(2) Interest from investments:	17,450,874
(3) Administrative Expense:	7,355,172
(A)/(B+C+D+E1+E2-E3)	97.73%

Indicator #3: Percentage of Funds Disbursed to Closed Loans

Shows the amount of funds actually disbursed compared to the amount of signed loan agreements

(A) Total Loan Disbursements:	323,188,898
(B) Total Signed Loan Agreements:	372,675,177
A/B	86.72%

Indicator #4: Benefits of Leveraging

DOES NOT APPLY TO OREGON PROGRAM

Indicator #5: Perpetuity of Fund

Demonstrates whether the program is maintaining its contributed capital

(A) Interest on Loans	29,368,482
(B) Interest on Investments	17,450,874
(C) Fed. Admin. Allowance	8,855,341
(D) Actual Admin. Costs	7,355,172
A+B+C-D	48,319,525

A positive result indicates the Program is maintaining its capital base

Indicator #6: Estimated Subsidy - Current Fiscal Year

An estimate of the CWSRF interest rate subsidy, stated as a percentage of the market rate

(A) Estimated Market Int. Rate:	5.14%
(B) Average CWSRF Loan Rate:	3.57%
A-B	1.57%
(A-B)/A	30.5%

LOANS COMPARED TO AVAILABLE FUNDS

This table documents the amount of loans made by the CWSRF compared to the amount of funds available for each fiscal year. It can be seen at the bottom of the table that Oregon has loaned 98% of its cumulative funds available.

Fiscal Year	New Loans		Funds Available	Cumulative Totals		Loans as a % of Available Funds
	#	Amount		New Loans	Available Funds	
1989-1991	4	7,421,676	52,246,294	7,421,676	52,246,294	14%
1992	22	22,004,798	25,781,101	29,426,474	78,027,395	38%
1993	25	39,393,294	26,255,473	68,819,768	104,282,869	66%
1994	5	10,214,683	19,160,284	79,034,451	123,443,152	64%
1995	7	3,925,367	22,317,074	82,959,818	145,760,226	57%
1996	12	40,017,705	34,169,862	122,977,523	179,930,088	68%
1997	20	60,289,058	22,020,640	183,266,581	201,950,728	91%
1998	22	89,961,162	37,942,014	273,227,743	239,892,742	114%
1999	9	35,445,740	28,336,453	308,673,483	268,229,195	115%
2000	4	18,141,807	32,588,864	326,815,290	300,818,058	109%
2001	6	15,707,776	41,845,768	342,523,066	342,663,827	100%
2002	8	30,152,111	37,170,454	372,675,177	379,834,281	98%
Totals	144	\$372,675,177	\$379,834,281			

ACHIEVEMENT OF PROGRAM GOALS

The long-term and short-term goals identified in the FY 2002 Intended Use Plan are listed below with a discussion of activities related to each.

Long Term Goals

Goal #1: To protect public health and the waters of the state by offering financial assistance for water pollution control projects.

The Oregon Clean Water State Revolving Fund (CWSRF) continues protect public health and Oregon's waters through its financial assistance program. During FY 2002, the CWSRF program signed new loans with eight communities for water pollution abatement projects in the total amount of \$12,380,847. Amendments to eight existing

loans increased project funding by \$20,871,396, bringing total FY 2002 project assistance to \$33,252,243 for 16 communities.

The following table shows the amount of new loans and total net loan funding provided in each year of the program (including loan decreases).

Fiscal Year	# of New Loans		\$ in New Loans and Amendments	
	This Year	Cumulative	This Year	Cumulative
1989-1991	4	4	\$7,421,676	\$7,421,676
1992	22	26	22,004,798	29,426,474
1993	25	51	39,393,294	68,819,768
1994	5	56	10,214,683	79,034,451
1995	7	63	3,925,367	82,959,818
1996	12	75	40,017,705	122,977,523
1997	20	95	60,289,058	183,266,581
1998	22	117	89,961,162	273,227,743
1999	9	126	35,445,740	308,673,483
2000	4	130	18,141,807	326,815,290
2001	6	136	15,707,776	342,523,066
2002	8	144	30,152,111	372,675,177

With the addition of \$156,294,726 in new Preliminary Applications during the FY 2002 solicitation period, the CWSRF Priority List now includes 143 projects totaling \$335,578,444 to assist with the abatement of water pollution in Oregon.

Goal #2: To provide financial assistance for the cost of complying with federal and state water quality mandates.

All preliminary project applications for financial assistance are prioritized using four criteria and ranked in the Priority List. The criteria favor projects addressing water quality problems that are the focus of enforcement action by the department. The highest preference is given to projects affecting water bodies unable to handle increased pollution loads without violating water quality standards. See the table on pages 31-32 for the complete list of project ranking criteria.

Of the \$12,380,847 in new loans during FY 2002 \$7,762,847 (62.7%) went to projects that received either 40 or 50 of a maximum 50 points for sensitivity of the receiving

water body. These projects also received the maximum 30 possible points for Problem Severity. The remaining projects received high scores for either the sensitivity or enforcement criteria, but not both. These criteria indicate the Oregon CWSRF provided financial assistance during FY 2002 for projects with demonstrated water quality problems.

Goal #3: To administer the clean water State Revolving Fund to ensure its financial integrity, viability and perpetuity as a source of financial assistance.

The CWSRF Program continues to take a conservative approach to its calculation of funds available for assistance and in its approach to credit risk. Through FY 2002 the Program has not experienced default on any of its loans. This helps to ensure the long term viability of the CWSRF fund. Loan interest rates remain below the market rate to meet the program goal of providing low cost financing.

Investment earnings are at the market rate of interest and are managed by the State Treasurer, as required by Statute. Earnings on cash balances contribute significantly to program growth, adding over \$17.4 million to capital through FY 2002. Although the goal of the program is to keep all available funds working for communities in loans, these earnings on undistributed loan proceeds and contingency reserves help offset the "losses" of below market loan interest rates. During FY 2002 investment rates averaged only 2.62%, however the Fund was still credited with over \$1.0 million in investment interest earnings.

The cash flow model used by the program continues to provide a financially sound tool to maximize the loans made to communities while balancing the different factors that affect the timing of projects and disbursement of funds. We will continue to utilize this tool to ensure all our borrowers will have the financial assistance when needed.

Short Term Program Goals

Goal #1: To continue working toward achieving and maintaining the revolving nature of the Fund and to maintain an adequate pace of disbursements compared to receipt of new funds and loan repayments.

The CWSRF Program continues to ensure its integrity and revolving nature as the Fund has grown significantly during FY 2002, from an outstanding balance of \$226,388,083 at the end of FY 2001 to \$246,978,865 at June 30, 2002. During FY 2002 the demand for loan funds was not as great as the available supply of funds, consequently the amount of cash in the Fund actually increased during the fiscal year. Disbursements during FY

2002 totaled \$28,350,617, compared with \$48,418,982 in available funds for the year. It is anticipated that the demand for loan funds will gradually increase in the coming fiscal year. We will continue to use our cash flow model to assist in maximizing future financial assistance while maintaining the financial stability of the Fund.

Goal #2: To provide funding to local communities to the maximum extent possible within the constraints of sound financial management.

Through the use of the Cash Flow Model and analysis of known funding sources, such as the federal Capitalization Grant, related State match and loan repayments, the CWSRF Loan Program provided approximately \$30 million in financial assistance to Oregon communities during FY 2002. This amount includes \$3.1 million in loan reductions due to communities using less than the original loan amounts to complete their projects. Without considering the loan reductions during FY 2002, total assistance provided (through new loans and loan increases) was \$33,252,243. Total available funding was approximately \$48.4 Million for the year.

Goal #3: To promote and facilitate the implementation of both non-point source and National Estuary Program projects.

During fiscal year 2002 the CWSRF program began a rulemaking effort to make the program more accessible to non-point and estuary projects. This effort included the creation of new project scoring criteria that will make project evaluation more equitable across the different types of projects. This effort should be completed during fiscal year 2003. Unfortunately, there were no new non-point or estuary projects funded during the fiscal year 2002.

Goal #4: To continue our participation with other state and federal programs in providing financial assistance to Oregon communities.

DEQ continues to work with other State agencies, in particular the Economic and Community Development Department (OECDD), as well as the federal Rural Utilities Services to educate local Oregon communities about the CWSRF Loan Program and its availability for finance of wastewater-related projects. A key component of this cooperation between the agencies is the One Stop Meetings, which allow local communities to meet with various State and Federal financing organizations to learn about the financing options that may be available for their projects. Another component is DEQ's Environmental Partnerships for Oregon Communities (EPOC) program that works directly with communities around the state regarding economic development and infrastructure needs. This program also educates communities about the availability of the CWSRF and its low cost financing.

Goal #5: To enable tribal governments to participate in the program.

The CWSRF is still willing to explore options for providing financial assistance to tribal governments for wastewater system projects, however there were no applications for such assistance during FY 2002. The CWSRF continues to include tribes in its annual solicitation for applications.

LOAN PORTFOLIO AND ACTIVITIES

PROJECT SELECTION PROCEDURES

Letters of information and solicitation are sent to all cities, service districts, and sanitary districts in the state annually. Any resulting completed preliminary applications are ranked and placed on the Priority List, based upon criteria in DEQ administrative rules.

As final applications are received, they are funded in rank order if funds are available. When there are not enough funds for all of the projects that are ready to proceed, allocations of new funds are made on a competitive basis. The cash flow model is updated with the projected schedules for new loans to be sure that cash will be available when needed. During 2002 there were more funds available than were requested for projects, so all applications for funds received either new loans or increases to existing loans.

The Available Funds are calculated annually in the Intended Use Plan considering all of the cash flow anticipated for the funding period. The maximum funding for any single borrower is calculated at 15% of the Available Funds. (The maximum may be exceeded when no other requests for increases or unfunded final applications are on hand.) Reserve amounts are calculated as follows:

- (1) Small Community Reserve: 15% of Available Funds for communities with populations of 5,000 or less.
- (2) Facilities Planning Reserve: the lesser of 10% of Available Funds or the total of all preliminary applications for facilities planning loans.

Increases for existing loans are funded first. After increases, applicable projects are funded from the reserves for Small Communities and Facilities Planning. The balance of available funds is used to finance all other projects that have completed final applications in Priority List order. When the reserve funds have been depleted, Small Community and Facilities Planning projects compete with all other projects for funding.

If more funds become available during the year based on the cash flow model, over and above the original Available Funds calculation, additional increases and new loans are funded in Priority Order.

PROJECT PRIORITY LIST CRITERIA

Projects are prioritized according to criteria set out in Oregon Administrative Rule. The citation for this portion of the rule is OAR 340-54-025(3), which is shown below. The maximum number of points that can be assigned to a project is 100.

POINT CRITERIA	POINT ASSIGNMENT	WATER QUALITY DESCRIPTION
Receiving Water Body Sensitivity: (One choice only.)	50	Facility discharges to waters of the state where the EQC has established Total Maximum Daily Loads (TMDL) and associated waste load allocations (WLA).
		Facility discharges to an EPA designated sole source aquifer.
	40	Facility discharges to waters of the state that are listed in the current <u>305(b) Report</u> under the Beneficial Uses column as "not supporting".
		Facility discharges to groundwater that has a documented increase in the concentration of a contaminant above the groundwater background level and levels in Tables 1 or 2 of OAR Chapter 340, Division 40.
		Facility discharges to groundwater located in a designated wellhead protection area.
	30	Facility discharges to waters of the state which are any of the following: (1) Designated as a Wild and Scenic River by the federal government; (2) Designated as a State Scenic Waterway by ORS 390.826; (3) Designated as Outstanding Resource Waters by the EQC; (4) Referenced in OAR 340-41-470 with special restrictions; (5) Determined to be a sensitive estuarine habitat by the DEQ; (6) Listed under Fishes in the latest <u>Endangered and Threatened Wildlife and Plants</u> (50 CFR 17.11 & 17.12) as threatened or endangered in Oregon.
		Facility discharges to groundwater that has a documented increase in the concentration of a contaminant above the groundwater background level but the contamination level is below the levels in Tables 1 and 2 of OAR Chapter 340, Division 40.
		Facility discharges to groundwater located in a designated groundwater management area.
		Facility discharges to waters of the state that are listed in the current <u>305(b) Report</u> under the Beneficial Uses column as "partially supporting".
	20	Facility discharges to groundwater where the contaminant in the discharge is listed in Tables 1 and 2 of OAR Chapter 340, Division 40 and is known to cause groundwater contamination but there is no groundwater quality data available to substantiate the problem.
		Facility discharges to groundwater that has a documented increase in the concentration of a contaminant above the groundwater background level and levels in Table 3 of OAR Chapter 340, Division 40.
		Facility discharges to waters of the state not referenced elsewhere in this criteria.
	10	Facility discharges to the ocean, the Columbia River or the Snake River.
		Facility discharges to groundwater that has a documented increase in the concentration of a contaminant above the groundwater background level but the contamination level is below the levels in Table 3 of OAR Chapter 340, Division 40.

Enforcement Activities and Water Quality Violations (One choice only)	30	Environmental Quality Commission (EQC) Orders.
		Mutual Agreements and Orders.
		Court Orders.
		Department Orders or permit conditions mandating action.
		EQC rules requiring elimination of a specific water quality problem related to inadequate water pollution control facilities.
		Documented health hazards <u>with</u> associated documented water quality problem.
	20	Noncompliance with the Department's statutes, rules or permit requirements resulting from inadequate water pollution control facilities.
	10	Documented health hazards without documented water quality problem.
		An enforcement order of the Oregon Health Division relating to safe drinking water.
		Existing potential water quality problem as noted by the Department but undocumented.
Affordability (10 pts. max.)	7	The cost per household of the wastewater treatment system (including operation, maintenance, and debt service for prior and new wastewater projects) exceeds 1.5% of the median household income of the community.
	10	The cost per household of the wastewater treatment system (including prior capital improvements outstanding and the proposed project) exceeds 1.75% of the median household income of the community.
Population (10 pts. max.)	LOG(Current Population) ²	Points calculated based upon the population directly affected by the project.

OTHER PROGRAM REQUIREMENTS

FIRST USE

The "first use" requirement of CWSRF funds has been met. All Oregon communities on the National Municipal Policy list have achieved compliance with water quality requirements, are on an enforceable schedule, have an enforcement action filed, or have a funding commitment.

ENVIRONMENTAL REVIEW

Environmental review was completed on all Title II Equivalency projects. On these projects, DEQ reviewed all requests for categorical exclusions, environmental assessments and environmental impact statements submitted by CWSRF borrowers according to the requirements of the National Environmental Policy Act. After incorporation of any DEQ review comments, public comments were solicited through notices published in one statewide and one local newspaper of general circulation. Notices were also mailed directly to other state and federal agencies, and other interested parties.

In October 1999 the State's proposed Alternative Environmental Review Process was sent out for public review. In November 1999 the Procedures Manual, which includes the environmental review process, was submitted to EPA for approval. EPA granted its approval of this document on November 17, 1999.

Environmental review of all projects signing loans after June 1997 has been consistent with this process. The core of the State Environmental Review Process (SERP) is the state's land use planning process. Additional requirements are addressed individually and through the facilities planning review process.

APPLICABLE FEDERAL AUTHORITIES AND LAWS

All State Revolving Fund projects receiving federal funds are required to comply with federal laws and authorities, as identified in the Initial Guidance of January 1988. Specific language agreeing to comply and a list of "cross-cutter" requirements is included in each loan agreement. Compliance is reviewed by each project officer. When all federal funds have been drawn and disbursed by the program, most of the federal "cross-cutter"

requirements will be dropped from new loan agreements. In many cases, state laws provide similar requirements.

At the end of each fiscal year, all borrowers receiving disbursements during the year are sent a statement showing the funding sources of the disbursements. Compliance with the Single Audit Act and OMB Circular A-133 in the annual audit of the Borrower's financial statements is required if "first round" federal funds are "passed through" in loan disbursements.

PUBLIC INVOLVEMENT

Public involvement is provided during development of the Intended Use Plan. Notices are sent to all Oregon jurisdictions, sanitary districts, and many engineering consultants of the opportunity to submit preliminary applications. All public agencies that submit preliminary CWSRF applications are sent excerpts of the draft Intended Use Plan, including the Priority List showing the project rankings. A public notice is published in The Oregonian and Business Journal notifying the general public of the document's availability for review. The complete draft Intended Use Plan is provided upon request. Public comments on the draft Project Priority List and Intended Use Plan are accepted and responded to during a thirty-day public review period, with revisions made as appropriate.

COMPLIANCE WITH TITLE II EQUIVALENCY REQUIREMENTS

1. Introduction to Update

This section of the 2001 Annual Report includes an update to the Title II Equivalency Requirements section as it appeared in the 2000 Annual Report. The Oregon CWSRF loan program believes it has satisfied the Title II Equivalency requirements, however it has not yet received EPA concurrence. EPA is still reviewing Oregon's related documentation to determine whether the State can be released from these requirements.

The Title II Equivalency requires the CWSRF program to disburse a certain amount of funds to projects that satisfy the specific requirements of that Title. Oregon believes it has disbursed more than enough such funds and no longer requires its borrowers to comply with the requirements of Title II. Should EPA determine that the Title II requirements have not been satisfied, Oregon will require certain future projects to comply with those provisions.